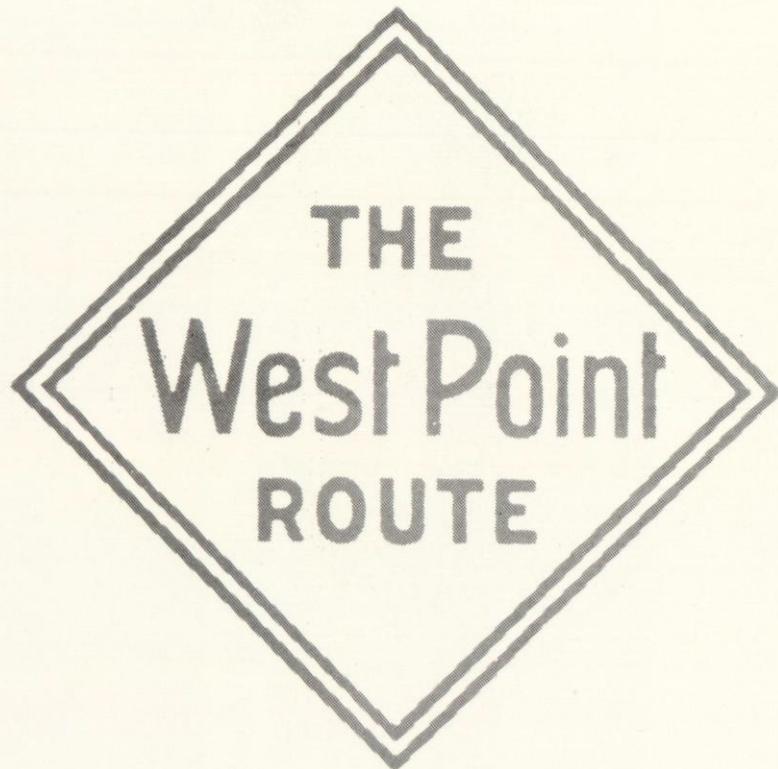


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ATLANTA AND WEST POINT RAIL ROAD COMPANY/ANNUAL REPORT/1977

ANNUAL REPORT OF
ATLANTA AND WEST POINT RAIL ROAD COMPANY
FOR THE YEAR ENDED DECEMBER 31, 1977

CONTENTS

1977 ANNUAL REPORT

Directors, Executive Committee and Staff.	1
President and General Manager's Letter.	2
Accountants' Opinion.	3
Balance Sheets.	4
Statements of Income.	6
Statements of Retained Income	6
Statements of Changes in Financial Position	7
Notes to Financial Statements	8
Revenues, Expenses and Income	11
Classification of Freight Traffic	12
Mileage Operated.	13
Train, Locomotive and Car Miles	13
Map	14

BOARD OF DIRECTORS Edward G. Cole, Jr., Newnan, Georgia
 Millard S. Jones, Jr., Atlanta, Georgia
 Terry P. McKenna, Atlanta, Georgia
 Prime F. Osborn, Jacksonville, Florida
 Carl J. Reith, Atlanta, Georgia
 W. Thomas Rice, Jacksonville, Florida
 Robert W. Scherer, Atlanta, Georgia

EXECUTIVE COMMITTEE Millard S. Jones, Jr.
 Prime F. Osborn
 W. Thomas Rice

THE STAFF Millard S. Jones, Jr., President and General Manager
 Albert A. Ward, Jr., Secretary
 C. Hayden Edwards, Treasurer
 John E. MacCarthy, Comptroller
 Carl S. Graham, Traffic Manager
 Terence O'Brien, General Superintendent-Chief Engineer
 Edgar J. Haley, Chief Mechanical Officer-Purchasing Agent
 Ralph Miller, Director of Labor Relations
 Ralph W. Williams, District Claims Agent-Family Lines
 O. Glenn Fass, Manager of Industrial Development
 Herbert E. Bainbridge, Jr., Real Estate Agent
 Heyman and Sizemore, General Counsel

TO OUR STOCKHOLDERS:

Net income for the year 1977, amounting to \$286,531, represents a fine earnings level for our Company. This was accomplished by an increase in operating revenues of 13.9% over the preceding year. Operating expenses were unusually high due to wages, and material and supply costs, with sharp advances in diesel fuel oil. Rental of equipment owned by others continues to be a major cost factor in our operations.

We acquired 60 70-ton 50-ft. box cars at a cost of approximately \$34,600 per unit, or a total of \$2,076,000. These cars, while supplying a vital need in our car loadings, will be beneficial in reducing our car rental costs. The railroad was well maintained during the year with special emphasis being placed on cross tie replacements and smoothing and surfacing the existing rights-of-way.

Although the first quarter of the new year has been adversely affected by weather conditions and a depressed economy, we look with optimism for a favorable outlook for the three remaining quarters. Our on-line loadings and overhead traffic for the first two months of 1978, show improvement over last year. It is felt this increase in business will prevail throughout the year.

We express our thanks to our staff of officers and employees for their efforts and accomplishments which we believe will extend into the months and years ahead.

W.S. Jones Jr.
President and General Manager

Atlanta, Georgia

April 18, 1978

HASKINS & SELLS

INTERNATIONALLY
DELOITTE, HASKINS & SELLS

COMMONWEALTH BUILDING
LOUISVILLE, KENTUCKY 40202

ACCOUNTANTS' OPINION

Atlanta and West Point Rail Road Company:

We have examined the balance sheets of Atlanta and West Point Rail Road Company as of December 31, 1977 and 1976 and the related statements of income, retained income, and changes in financial position for the years then ended. Our examinations were made in accordance with generally accepted auditing standards and, accordingly, included such tests of the accounting records and such other auditing procedures as we considered necessary in the circumstances.

In our opinion, such financial statements present fairly the financial position of the Company at December 31, 1977 and 1976 and the results of its operations and the changes in its financial position for the years then ended, in conformity with generally accepted accounting principles applied on a consistent basis.

March 23, 1978.

Haskins + Sells

BALANCE SHEETS
DECEMBER 31, 1977 AND 1976

- ASSETS -

	1977	1976
CURRENT ASSETS:		
Cash	\$ 370,694	\$ 281,330
Temporary cash investments, at cost, which approximates market	1,600,000	900,000
Accounts receivable	1,444,325	1,255,599
Material and supplies, at average cost	361,676	226,791
Other current assets	<u>28,038</u>	<u>17,678</u>
 Total current assets	<u>3,804,733</u>	<u>2,681,398</u>
 SPECIAL FUNDS AND INVESTMENTS:		
Insurance and other funds	17,210	12,799
Investments, at cost	<u>7,605</u>	<u>7,605</u>
 Total special funds and investments	<u>24,815</u>	<u>20,404</u>
 PROPERTIES:		
Transportation property:		
Road	7,182,687	6,977,137
Equipment	10,449,600	8,461,371
Miscellaneous property	<u>761,744</u>	<u>756,744</u>
 Total	18,394,031	16,195,252
Less: Accumulated depreciation and amortization	<u>6,609,227</u>	<u>6,073,780</u>
 Properties - net	<u>11,784,804</u>	<u>10,121,472</u>
 OTHER ASSETS AND DEFERRED CHARGES	<u>64,712</u>	<u>125,107</u>
 TOTAL	<u>\$15,679,064</u>	<u>\$12,948,381</u>

See notes to financial statements.

BALANCE SHEETS
DECEMBER 31, 1977 AND 1976

- LIABILITIES AND SHAREHOLDERS' EQUITY	1977	1976
CURRENT LIABILITIES:		
Accounts payable	\$ 2,618,762	\$ 1,819,871
Interest payable	14,813	14,497
Federal income taxes		52,897
Accrued payroll, property, and other taxes	598	25,606
Long-term debt due within one year	479,910	349,298
Other current liabilities	<u>1,952</u>	<u>1,519</u>
 Total current liabilities	<u>3,116,035</u>	<u>2,263,688</u>
 LONG-TERM DEBT DUE AFTER ONE YEAR	<u>4,214,736</u>	<u>2,617,266</u>
 OTHER LIABILITIES AND DEFERRED CREDITS:		
Deferred income taxes	254,478	269,666
Other liabilities and deferred credits	<u>231,373</u>	<u>74,034</u>
 Total other liabilities and deferred credits	<u>485,851</u>	<u>343,700</u>
 SHAREHOLDERS' EQUITY:		
Capital stock, par value \$100 per share - authorized 25,000 shares; outstanding - 24,636 shares (no change during the two years)	2,463,600	2,463,600
Retained income	<u>5,398,842</u>	<u>5,260,127</u>
 Total shareholders equity	<u>7,862,442</u>	<u>7,723,727</u>
 TOTAL	<u>\$15,679,064</u>	<u>\$12,948,381</u>

See notes to financial statements.

STATEMENTS OF INCOME
FOR THE YEARS ENDED DECEMBER 31, 1977 AND 1976

	1977	1976
TRANSPORTATION REVENUES:		
Freight	\$9,208,331	\$8,163,754
Other	<u>257,312</u>	<u>144,805</u>
Total transportation revenues	<u>9,465,643</u>	<u>8,308,559</u>
TRANSPORTATION EXPENSES:		
Maintenance of way and structures	1,127,055	1,123,393
Maintenance of equipment	1,156,843	1,069,674
Traffic	179,863	177,761
Transportation	4,226,366	3,533,634
Other	<u>489,419</u>	<u>469,808</u>
Total	<u>7,179,546</u>	<u>6,374,270</u>
Taxes other than income taxes (principally payroll)	500,508	438,777
Equipment and joint facility rents - net	<u>1,610,683</u>	<u>1,128,845</u>
Total transportation expenses	<u>9,290,737</u>	<u>7,941,892</u>
INCOME FROM TRANSPORTATION OPERATIONS	<u>174,906</u>	<u>366,667</u>
OTHER INCOME:		
Miscellaneous rent and income from nonoperating property	146,842	141,578
Interest	94,209	66,507
Miscellaneous	<u>(4,897)</u>	<u>109,194</u>
Total other income	<u>236,154</u>	<u>317,279</u>
Total	411,060	683,946
OTHER CHARGES - INTEREST	<u>187,139</u>	<u>224,970</u>
INCOME BEFORE INCOME TAXES	<u>223,921</u>	<u>458,976</u>
PROVISION (CREDIT) FOR INCOME TAXES:		
Current	(47,422)	3,546
Deferred	<u>(15,188)</u>	<u>91,963</u>
Total	<u>(62,610)</u>	<u>95,509</u>
NET INCOME	<u>\$ 286,531</u>	<u>\$ 363,467</u>
NET INCOME PER SHARE	<u>\$ 11.63</u>	<u>\$ 14.75</u>

STATEMENTS OF RETAINED INCOME
FOR THE YEARS ENDED DECEMBER 31, 1977 AND 1976

	1977	1976
Balance at beginning of year	\$5,260,127	\$5,044,476
Net income	<u>286,531</u>	<u>363,467</u>
Total	<u>5,546,658</u>	<u>5,407,943</u>
Cash dividends (\$6.00 per share in 1977 and 1976)	<u>147,816</u>	<u>147,816</u>
Balance at end of year	<u>\$5,398,842</u>	<u>\$5,260,127</u>

See notes to financial statements.

STATEMENTS OF CHANGES IN FINANCIAL POSITION
FOR THE YEARS ENDED DECEMBER 31, 1977 AND 1976

	1977	1976
SOURCE OF FUNDS:		
Net income	\$ 286,531	\$ 363,467
Add (deduct) items not requiring (or providing) a current outlay of working capital:		
Depreciation	419,745	454,615
Deferred income taxes	(15,188)	91,963
Decrease in casualty and other reserves		(36,240)
Retirements of nondepreciable property	13,189	7,344
Working capital provided from operations	704,277	881,149
Issuance of long-term debt	1,938,888	
Salvage from disposition of depreciable properties	257,297	125,662
Other sources - net	<u>213,323</u>	<u>115,127</u>
Total source of funds	<u>3,113,785</u>	<u>1,121,938</u>
USE OF FUNDS:		
Reduction of long-term debt	341,418	345,159
Dividends on capital stock	147,816	147,816
Additions to properties	<u>2,353,563</u>	<u>220,870</u>
Total use of funds	<u>2,842,797</u>	<u>713,845</u>
INCREASE IN WORKING CAPITAL, AS BELOW	270,988	408,093
WORKING CAPITAL, BEGINNING OF YEAR	<u>417,710</u>	<u>9,617</u>
WORKING CAPITAL, END OF YEAR	<u>\$ 688,698</u>	<u>\$ 417,710</u>
INCREASE (DECREASE) IN CURRENT ASSETS:		
Cash and temporary cash investments	\$ 789,364	\$ (49,088)
Accounts receivable	188,726	(138,583)
Material and supplies	134,885	78,289
Other	<u>10,360</u>	<u>3,880</u>
Net	<u>1,123,335</u>	<u>(105,502)</u>
INCREASE (DECREASE) IN CURRENT LIABILITIES:		
Accounts and wages payable	798,891	(418,964)
Federal income taxes	(52,897)	52,897
Long-term debt due within one year	130,612	(4,141)
Other	<u>(24,259)</u>	<u>(143,387)</u>
Net	<u>852,347</u>	<u>(513,595)</u>
INCREASE IN WORKING CAPITAL, AS ABOVE	<u>\$ 270,988</u>	<u>\$ 408,093</u>

See notes to financial statements.

NOTES TO FINANCIAL STATEMENTS

1. Summary of Significant Accounting Policies

Railroad properties are stated at estimated original cost, determined by the Interstate Commerce Commission ("ICC") valuations, plus additions and betterments at cost and less retirements since the dates of valuation.

The current cost of repairs and renewals of parts of the track structure is charged to maintenance expense and additions and betterments to the structure are capitalized. Charges to operating expenses for depreciation (straight-line basis) of railroad property, except track accounts, are at annual percentage rates approved by the ICC. Charges for depreciation of road and equipment and for repairs and renewals of the track structure were as follows:

	<u>1977</u>	<u>1976</u>
Depreciation	\$419,745	\$ 454,615
Repairs and renewals of track structure	<u>443,538</u>	<u>552,176</u>
Total	<u><u>\$863,283</u></u>	<u><u>\$1,006,791</u></u>

The Company uses the "flow-through" method of accounting for investment tax credits (see Note 4).

2. Related Parties

Seaboard Coast Line Railroad Company ("SCL") and Louisville and Nashville Railroad Company ("L&N") jointly control approximately 63% of the Company's outstanding capital stock through direct ownership or indirect ownership under their lease of the Georgia Railroad. SCL and L&N similarly control approximately 67% of the outstanding capital stock of The Western Railway of Alabama, a connecting carrier.

As a result of this relationship, the Company, in the normal conduct of its transportation business, is a party to numerous transactions with the above mentioned carriers. The more significant transactions include interline revenue, operation of joint facilities, and joint trackage rights.

3. Deferred Income Taxes

Deferred income tax expense results from the tax effect of all material timing differences (transactions which enter into the determination of income for financial reporting purposes in one year and of taxable income in a different year). The tax effect of the items included in the deferred tax (credit) provision for 1977 and 1976 was as follows:

	<u>1977</u>	<u>1976</u>
Tax over book depreciation	\$ 30,170	\$(1,227)
Tax expense for claims - deferred for books	(2,074)	93,190
State deferred income taxes - net of federal effect	1,826	
Other - net	(8,158)	
Investment tax credit used to reduce deferred taxes	<u>(36,952)</u>	
Net	<u><u>\$(15,188)</u></u>	<u><u>\$91,963</u></u>

4. Federal Income Taxes

The Company's federal income tax returns have been examined and all assessments settled through the year 1973. Federal income tax returns for the years 1974 and 1975 are currently under examination by field agents of the Internal Revenue Service.

Investment tax credits reduced federal income tax for 1977 and 1976 by \$77,000 and \$53,000, respectively. At December 31, 1977, there is a carry-over to future periods for tax and book purposes of unused investment tax credits expiring in 1984 of \$194,000 and \$79,000, respectively.

The total provision (credit) for federal income taxes, as a percentage of pre-tax earnings, is lower than the applicable corporate tax rate in varying amounts for each year due primarily to investment tax credits and capital gains rates.

5. Long-Term Debt

Long-term debt is comprised of equipment obligations maturing at various dates through 1992, with interest rates from 4.2 per cent to 8.5 per cent. Interest rates on certain of the obligations are subject to prime rate variations.

Required annual principal payments for the five years 1978 - 1982 are as follows: \$480,000, \$472,000, \$449,000, \$421,000, and \$413,000, respectively.

Substantially all railway equipment is subject to the terms of the above long-term debt.

6. Pension Plan

The Company has an unfunded noncontributory pension arrangement for officers and supervisory employees who retired prior to January 1, 1976, but reserves the right to discontinue the plan at any time. Related charges to operating expenses in 1977 and 1976, representing amounts paid to retired employees, were approximately \$42,000 and \$47,000, respectively. The amount required to provide for past service costs is not material.

During 1976 the Company adopted a funded pension plan for the benefit of officers and supervisory employees retiring on or after January 1, 1976. This plan supplements benefits received by these employees under the Railroad Retirement Act. It is the policy of the Company to fund pension costs accrued. Pension costs amounted to approximately \$74,000 for each year, including amortization of prior service costs over 10 years. Based upon the latest actuarial report available (January 1, 1977), the actuarially computed value of vested benefits exceeded the total of the pension fund by approximately \$51,000 as of that date.

7. Commitments and Contingent Liabilities

The Company carries a service interruption policy under which it will be entitled to indemnity for certain work stoppage losses. In the event such

7. Commitments and Contingent Liabilities (Continued)

losses are sustained by other railroads holding similar policies, the Company may be obligated to pay additional premiums, subject to a maximum of \$214,000, at December 31, 1977.

The Company leases rolling stock under noncancelable leases expiring at various dates to 1982. Annual minimum rentals under such leases for the five years 1978 - 1982 are as follows: \$125,000, \$113,000, \$100,000, \$36,000, and \$15,000, respectively. Total rent expense charged to operations for such leases was \$146,257 in 1977 and \$146,067 in 1976.

OPERATING REVENUES

Year	Freight	Passenger	Mail and Express	Other	Net Joint Facility Cr.	Total Operating Revenues
1968	\$ 3,435,511	\$ 66,478	\$ 119,954	\$ 111,796	\$ 46,543	\$ 3,780,282
1969	3,479,492	43,230	86,907	85,310	48,291	3,743,230
1970	3,980,724	1,666	2,005	73,543	43,097	4,101,035
1971	4,778,211			159,677	29,474	4,967,362
1972	4,798,999			129,076	15,867	4,943,942
1973	6,495,484			366,150	21,328	6,882,962
1974	7,528,360			293,863	22,943	7,845,166
1975	6,246,371			142,347	25,086	6,413,804
1976	8,163,754			121,559	23,246	8,308,559
1977	9,208,331			232,206	25,106	9,465,643

OPERATING EXPENSES

Year	Maintenance of Way and Structures	Maintenance of Equipment	Transportation	Other	Total Operating Expenses	Operating Ratios
1968	\$ 449,287	\$ 626,747	\$ 1,367,494	\$ 458,266	\$ 2,901,794	76.76
1969	504,623	602,892	1,337,764	455,097	2,900,376	77.48
1970	504,724	571,060	1,267,814	458,552	2,802,150	68.33
1971	586,762	596,315	1,534,823	562,528	3,280,428	66.04
1972	625,002	762,094	1,730,908	630,941	3,748,945	75.83
1973	809,033	853,736	2,735,790	627,193	5,025,752	73.02
1974	863,220	935,563	3,212,240	655,010	5,666,033	72.22
1975	653,757	1,003,637	3,398,983	778,000	5,834,377	90.97
1976	1,123,393	1,069,674	3,533,634	647,569	6,374,270	76.71
1977	1,127,055	1,156,843	4,226,366	669,282	7,179,546	75.85

INCOME

Year	Net Revenue from Railway Operations	Railway Tax Accruals	Joint Facility Rents - Dr.	Net Equipment and Other Income (Deduction)	Fixed Charges	Net Income (Loss)
1968	\$ 878,488	\$ 223,255	\$ 498,517	\$ (177,153)	\$ 70,868	\$ (91,305)
1969	842,854	222,131	388,459	187,097	129,601	289,760
1970	1,298,885	490,340	324,413	1,192,816	154,391	1,522,557
1971	1,686,934	621,492	372,637	178,432	126,972	744,265
1972	1,194,997	439,500	318,150	201,640	104,606	534,381
1973	1,857,210	494,985	919,906	235,360	218,947	458,732
1974	2,179,133	667,715	1,072,817	301,938	332,277	408,262
1975	579,428	55,770	1,049,611	319,724	294,110	(500,339)
1976	1,934,289	534,286	1,128,845	317,279	224,970	363,467
1977	2,286,097	437,898	1,610,683	236,154	187,139	286,531

CLASSIFICATION OF FREIGHT TRAFFIC

Commodity	Tons.			* Gross Freight Revenue
	Originating on Road	Received From Connecting Carriers	Total Carried	
Farm Products	437	189,226	189,663	\$ 344,123
Forest Products		4,308	4,308	6,448
Fresh Fish and Other Marine Products		280	280	390
Metallic Ores		342,660	342,660	433,565
Coal		182,446	182,446	137,402
Nonmetallic Minerals, except Fuels	1,349	913,322	914,671	967,693
Ordnance and Accessories		913	913	859
Food and Kindred Products	797	364,215	365,012	614,802
Tobacco Products		8,395	8,395	20,834
Textile Mill Products	1,207	22,677	23,884	55,350
Apparel & Other Finished Textile Products, including Knitted	9	3,573	3,582	9,415
Lumber & Wood Products, except Furniture	139,378	210,018	349,396	551,969
Furniture and Fixtures	58	22,103	22,161	82,428
Pulp, Paper and Allied Products	1,842	596,535	598,377	1,052,604
Printed Matter	35	56	91	209
Chemicals and Allied Products	5,273	1,786,910	1,792,183	1,999,447
Petroleum and Coal Products	129	352,848	352,977	506,921
Rubber & Miscellaneous Plastic Products	3,417	21,653	25,070	115,022
Leather and Leather Products		50	50	57
Stone, Clay, Glass & Concrete Products	35,352	325,786	361,138	890,616
Primary Metal Products	3,820	120,710	124,530	194,605
Fabricated Metal Products, except				
Ordnance Machinery and				
Transportation	2,706	20,582	23,288	73,084
Machinery, except Electrical	72	7,184	7,256	23,936
Electrical Machinery, Equipment & Supplies		4,364	4,364	16,393
Transportation Equipment	183	42,547	42,730	137,174
Instruments, Photographic and				
Optical Goods, Watches and Clocks		678	678	1,618
Miscellaneous Products of Manufacturing	44	2,640	2,684	15,484
Waste and Scrap Materials	57,966	75,750	133,716	332,513
Miscellaneous Freight Shipments	19	1,147	1,166	3,229
Containers, Shipping, Returned Empty	22	2,331	2,353	6,393
Freight Forwarder Traffic		122	122	205
Shipper Association or Similar Traffic		5,265	5,265	6,587
Miscellaneous Mixed Shipments, except				
Forwarder and Shipper Association	3,100	251,626	254,726	491,145
Total, Carload Traffic	257,215	5,882,920	6,140,135	9,092,520
Small Packaged Freight Shipments	37	275	312	2,961
Total, Carload & Less than Carload Traffic	<u>257,252</u>	<u>5,883,195</u>	<u>6,140,447</u>	<u>\$9,095,481</u>

*Exclusive of overcharge claims and other adjustments, amounting to \$112,850.

MILEAGE OPERATED

Miles of road operated at December 31, 1977:

MAIN LINE:

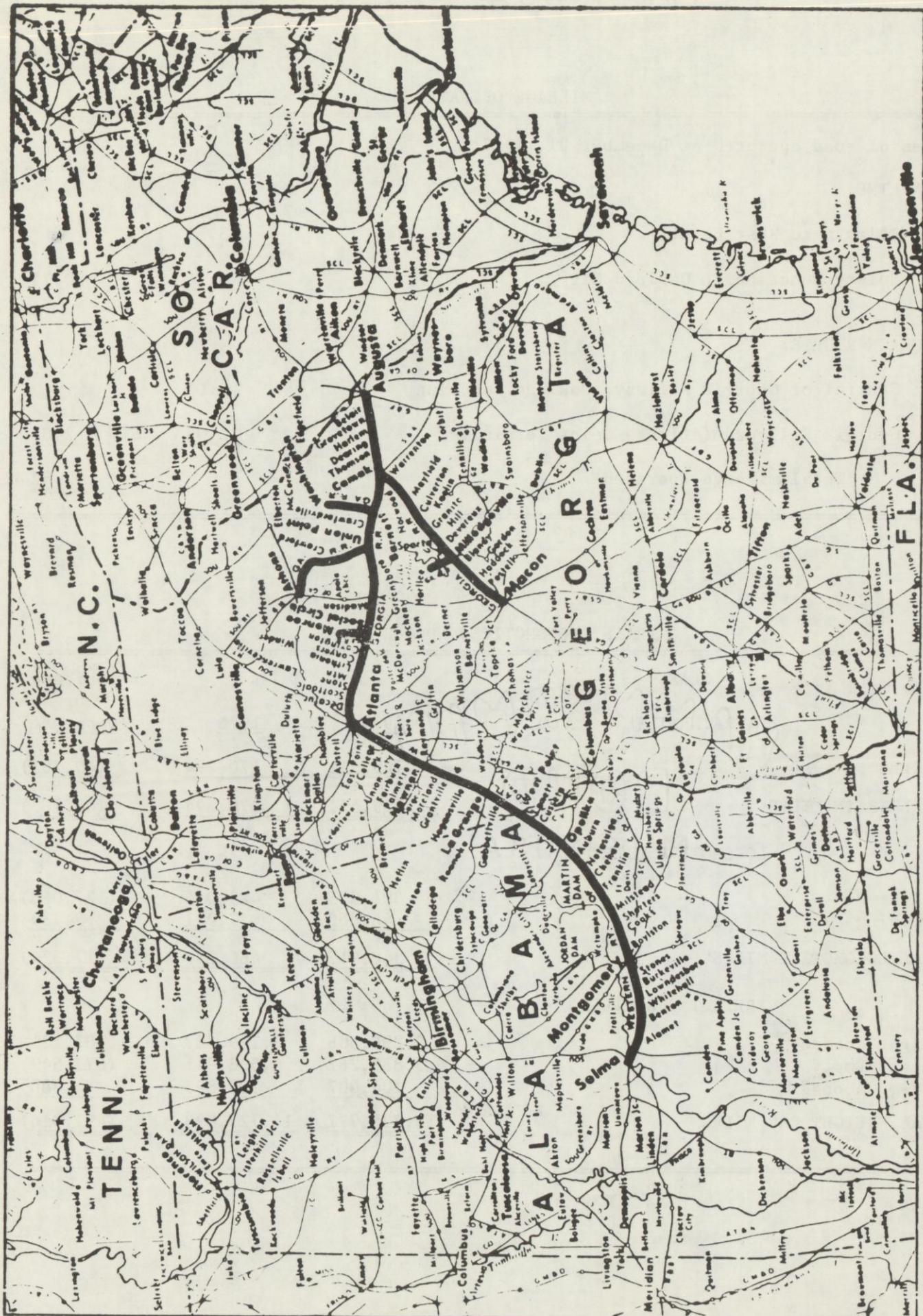
Atlanta to West Point	85.59
Hulsey Junction to Oakland City	<u>5.16</u>
	90.75

TRACKAGE RIGHTS:

Central of Georgia Railway, Oakland Junction	.05
Georgia Railroad (Atlanta Joint Terminals)	<u>2.02</u>
	2.07
Total mileage operated	<u>92.82</u>

TRAIN, LOCOMOTIVE AND CAR MILES

CLASS		Increase or (Decrease)	
TRAIN MILES	<u>1977</u>	<u>1976</u>	
Freight	<u>129,511</u>	<u>170,294</u>	<u>(40,783)</u>
TOTAL TRAIN MILES	<u>129,511</u>	<u>170,294</u>	<u>(40,783)</u>
LOCOMOTIVE MILES			
Freight	301,953	429,016	(127,063)
Switching	<u>46,960</u>	<u>37,221</u>	<u>9,739</u>
TOTAL LOCOMOTIVE MILES	<u>348,913</u>	<u>466,237</u>	<u>(117,324)</u>
FREIGHT CAR MILES			
Freight Loaded	8,296,508	8,109,387	187,121
Freight Empty	<u>5,835,262</u>	<u>6,508,811</u>	<u>(673,549)</u>
System Caboose	<u>104,007</u>	<u>108,895</u>	<u>(4,888)</u>
TOTAL FREIGHT CAR MILES	<u>14,235,777</u>	<u>14,727,093</u>	<u>(491,316)</u>

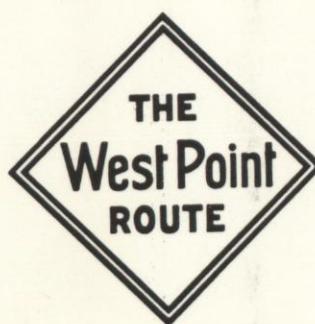


Atlanta and West Point Rail Road Company The Western Railway of Alabama Georgia Railroad

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ATLANTA AND WEST POINT RAIL ROAD COMPANY